Balanced-budget income taxes and aggregate stability in a small open economy

Kevin X.D. Huang, Qinglai Meng, Jianpo Xue

PII: S0022-1996(16)30152-0
Reference: INEC 3006

To appear in: Journal of International Economics

Received date: 23 December 2013
Revised date: 20 October 2016
Accepted date: 16 December 2016

Please cite this article as: Huang, Kevin X.D., Meng, Qinglai, Xue, Jianpo, Balanced-budget income taxes and aggregate stability in a small open economy, Journal of International Economics (2016), doi: 10.1016/j.jinteco.2016.12.004

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Balanced-budget income taxes and aggregate stability in a small open economy

Kevin X.D. Huang\textsuperscript{a}, Qinglai Meng\textsuperscript{b,}\textsuperscript{*}, Jianpo Xue\textsuperscript{c}

\textsuperscript{a}Department of Economics, Vanderbilt University, Nashville, TN 37235, USA
\textsuperscript{b}Department of Economics, Oregon State University, Corvallis, OR 97331, USA
\textsuperscript{c}School of Finance, Renmin University of China, Beijing 100872, China

Abstract

In a closed economy, a balanced-budget fiscal policy rule with endogenous income tax rates can generate aggregate instability due to self-fulfilling expectations (e.g., Schmitt-Grohé and Uribe 1997). This paper shows, both analytically and numerically, that beliefs-driven aggregate instability associated with such a balanced-budget rule is less of a problem in a small open economy integrated in the world asset and goods markets. This is because cross-border capital flows and endogenous international price adjustments produce income effects that reduce the likelihood of sunspot equilibria. From a policy perspective, our results relieve possible concerns that balanced-budget rules and reliance on income taxes to achieve budget objective could have destabilizing effects on the economy.

\textit{JEL classification:} E32; E62; F11; F4

\textit{Keywords:} Small open economy; Balanced-budget rules; Income taxes; Saddle-path stability; Sunspots; Self-fulfilling expectations; Indeterminacy

\textsuperscript{*}Corresponding author. Qinglai Meng, Department of Economics, Oregon State University. Tel: +1 541 737 8744, Fax: +1 541 737 5917.

\textit{E-mail address:} meng2008@oregonstate.edu (Q. Meng).
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات